

Decision **DRAFT DECISION OF ALJ ALLEN** (Mailed 8/20/2003)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) for Authority to Institute a Rate Stabilization Plan with a Rate Increase and End of Rate Freeze Tariffs.

Application 00-11-038
(Filed November 16, 2000)

Emergency Application of Pacific Gas and Electric Company to Adopt a Rate Stabilization Plan.
(U 39 E)

Application 00-11-056
(Filed November 22, 2000)

Petition of THE UTILITY REFORM NETWORK for Modification of Resolution E-3527.

Application 00-10-028
(Filed October 17, 2000)

**ORDER IMPLEMENTING ALLOCATION OF THE SUPPLEMENTAL
2003 REVENUE REQUIREMENT DETERMINATION OF THE
CALIFORNIA DEPARTMENT OF WATER RESOURCES**

Summary

The California Department of Water Resources (DWR) has submitted a supplemental revenue requirement determination for 2003 that reduces its 2003 revenue requirement by \$1.002 billion. This Decision allocates that reduction

among the ratepayers of the three major investor-owned utilities using the same methodology as the Commission applied in Decision (D.) 02-12-045.¹

Utility customers taking bundled service will receive the reduction in the form of a one-time bill credit.² Unless otherwise specified, references to “customers” in this order refer to bundled customers. While 100% of the DWR reduction is being credited to bundled customers pursuant to this order, some portion of the reduction is attributable to direct access (DA) and departing load (DL) cost responsibility undercollection. We make no determination here, however, as to the specific portion of the reduction that may be attributable to DA or DL cost responsibility. Allocation of any applicable share of the reduction to DA and DL customers, and any resulting adjustments to DA/DL cost responsibility undercollections will be determined in R.02-01-011. Any final allocation of the 2003 DWR revenue requirement redetermination to DA and DL customers will be applied on a consistent basis with the assumptions applied in this order to ensure that no costs attributable to DA and DL customers are shifted to bundled customers, in accordance with the principles outlined in D.02-03-055.

Background

In D.02-12-045, this Commission stated that a supplemental revenue requirement determination from DWR would allow for a more accurate and equitable allocation of DWR’s 2003 revenue requirement, and would also likely result in a significant reduction in the total amount of DWR’s 2003 revenue

¹ Subsequently modified on other issues.

² Because of the Chapter 11 bankruptcy of Pacific Gas and Electric (PG&E), PG&E’s customers will not immediately receive a credit.

requirement. (D.02-12-045, p. 3.) The reduction in the revenue requirement was expected as a consequence of the utilities' resuming the procurement obligation from DWR beginning in January 2003, but DWR would not concur with such a reduction prior to the utilities actually beginning to procure their own net short amounts. (Id., pp. 47-49.) We could not require DWR to reduce its revenue requirement, nor could we require them to submit a supplemental determination for 2003, so we strongly encouraged DWR to promptly submit a supplemental determination (early in 2003) reflecting the reduced revenue requirement. (Id., pp. 3, 48, 53.)

DWR submitted a supplemental determination of its 2003 revenue requirement on July 1, 2003. DWR stated that, "assuming current customer rates remain in place throughout 2003, it will have \$1.002 billion more in revenues than are needed to meet its required reserve and operational requirements." (DWR Supplemental Determination, p. 4.) A prehearing conference (PHC) was held on July 8, 2003, immediately followed by a workshop facilitated by staff from the Commission's Energy Division. Energy Division prepared and revised (with input from the parties) tables showing a proposed allocation of DWR's 2003 revenue requirement based upon our allocation in D.02-12-045.

Comments were received on July 25, 2003 from Pacific Gas and Electric (PG&E), Southern California Edison (SCE), San Diego Gas & Electric (SDG&E), California Large Energy Consumers Association (CLECA), The Utility Reform Network (TURN), and the Commission's Office of Ratepayer Advocates (ORA). Comments from the California Farm Bureau Federation (CFBF) were received significantly after the noon deadline, but with no explanation or request for leave for late service. CFBF's Comments will be considered, but will be given less weight. Reply Comments were received on August 4, 2003 from the same

parties, plus a group of departing load customers³ (DL Customers). We also received a Memorandum from DWR, functioning as Reply Comments.

The scope and issues to be addressed in this phase of this proceeding were set forth by ALJ Allen (in coordination with ALJ Pulsifer) in a Ruling⁴ issued July 15, 2003:

Please note that the scope of this phase of this proceeding is limited by the Commission's earlier Decision (D.) 02-12-045. [fn. omitted.] In that decision, the Commission stated:

In order to avoid unnecessary delay in implementing the revised allocation, the Commission will use the methodology approved today, with the exception of the allocation of ancillary services. Re-litigation of the allocation methodology will not be allowed (again with the exception of ancillary services), absent extraordinary circumstances. (D.02-12-045, p. 43.)

Accordingly, the scope of this phase of this proceeding will apply the allocation methodology previously adopted by the Commission to DWR's supplemental determination. [fn. omitted.] Energy Division's July 15 tables will apply the methodology adopted in D.02-12-045 to DWR's supplemental determination of its 2003 revenue requirement.

In their opening (July 25) Comments, parties should specifically propose how the reduction in DWR's 2003 revenue requirement should flow back to ratepayers. Parties should be aware of the language in the Addendum to the Summary of Material Terms of Financing Documents (Addendum) [fn. omitted], which states in relevant part:

³ Kimberly Clark Corporation, THUMS Long Beach Company, and Valero Refining Company.

⁴ Administrative Law Judge's Ruling Establishing Procedural Schedule.

...Unless otherwise agreed by both the CPUC and DWR, each acting in their own discretion, any Excess Amounts remaining after application to the uses described in the preceding sentence, shall be used, at the direction of CPUC, after consultation with DWR, to (i) adjust DWR Charges or (ii) with the agreement of DWR, reduce debt outstanding under the proposed Bond Indenture, in all instances, upon consideration of the interests of the retail customers of the Electrical Corporations, DWR and, if applicable, ESP retail customers.⁵

Accordingly, in this proceeding, absent the agreement of DWR, we must pass through the reduction in DWR's 2003 revenue requirement by adjusting DWR Charges.⁶ In other words, we need to reduce the charges that ratepayers pay to DWR (which the utilities collect on behalf of DWR), not just the utilities' remittances to DWR.

If parties wish to propose any other method for passing the reduction back to ratepayers, they should be aware that such a method requires the agreement of DWR and the Commission, and should provide support for why DWR and the Commission should agree to depart from the pre-approved terms of the Addendum. Parties whose proposals are consistent with the language of the Addendum should address which DWR Charges should be adjusted, by how much, over what period of time, and the mechanics of how the adjustment would be done. All parties should discuss how their proposal is consistent with the interests of retail customers and the existing Servicing Agreements between the utilities and DWR.

⁵ Addendum, Section 3, re disposition of the Operating Reserve Account. Section 5 of the Addendum states that excess amounts in the Operating Account "shall be utilized in the same manner" as set forth in Section 3.

⁶ Examples of "DWR Charges" include the Power Charge and the Bond Charge.

Since direct access and departing load customers share responsibility with bundled customers for the 2003 DWR revenue requirements pursuant to a series of Commission orders issued in R.02-01-11, parties' proposals shall take into account the appropriate allocation of 2003 DWR costs to direct access and departing load customers. A separate ruling was issued in R.02-01-011 on June 24, 2003 to implement a process in coordination with this proceeding to quantify the appropriate portion of the 2003 DWR revenue requirement redetermination allocable to direct access and departing load customers. Such customers are currently subject to a fixed cost responsibility surcharge cap, and bundled customers currently absorb shortfalls in cost recovery from Direct Access and Departing Load customers subject to future reimbursement. An accurate allocation of the 2003 DWR revenue requirements to direct access and departing load customer groups is essential, therefore, to assure that undercollections in cost recovery are accurately finalized for future reimbursement to bundled customers. In the interests of coordination, a copy of this ruling shall be served on parties in the direct access rulemaking (R.02-01-011) for information purposes.

Any party that intends to argue that other utility rates should be (or automatically will be) altered as a consequence of a reduction in DWR Charges (e.g. other rates would increase to offset the reduction in the DWR Charges) must provide in its opening Comments a clear basis for that position, including any supporting legal authorities and policy arguments. This direction also applies to PG&E's proposals to net "WAPA true-up" remittances against the reduction in DWR's revenue requirement, and to incorporate the reduction in PG&E's post-bankruptcy rates. (PG&E PHC Statement, pp. 2-6.)

Allocation

As described above, D.02-12-045 generally barred re-litigation of the allocation methodology. (p. 43.) In general, parties' Comments do not take issue

with the methodology adopted in D.01-12-045, nor with Energy Division's calculations applying that methodology to the supplemental determination.⁷

Accordingly, we apply the same methodology to the reduction in the 2003 revenue requirement as we did for the original 2003 revenue requirement. This means that the customers of each utility get the same share of the reduction in the revenue requirement as they did of the revenue requirement itself. As previously calculated by Energy Division, this results in an allocation that generally looks like:⁸

	Share of Allocated DWR costs	Amount
PG&E	44.33%	\$ 444,183,276
SCE	42.16%	\$ 422,450,353
SDG&E	13.51%	\$ 135,366,371
Total	100.00%	\$1,002,000,000

Of course, things are often not as simple as they first appear. A number of parties make arguments regarding which customers should get the reduction. TURN and CFBF argue that the bill credit should go to the customers that pay the bond charge, on an equal cents per kWh basis. According to TURN, the only

⁷ SCE argued in its PHC statement and at the PHC that the Commission should reconsider the allocation methodology adopted for 2003, and should adopt a "cost-follows-contracts" methodology, as previously advocated by SCE. ALJ Allen rejected that argument as inconsistent with D.02-12-045 on the grounds that SCE did not provide persuasive evidence of the existence of "extraordinary circumstances." We confirm that ruling.

⁸ More detail on the effect of DWR's Supplemental Determination is contained in the new Table C and Appendix A (attached to this decision) corresponding to the Table C and Appendix A in D.02-12-045.

customers this would exclude would be CARE, medical baseline, and continuous DA, who are exempt from paying the bond charge. Everyone else, including departing load and usage up to 130% of baseline, would receive the benefit of the revenue reduction.

SDG&E divides its customers into classifications of “AB265 customers” and “ABX1 43 customers.” ABX1 43 customers would receive a rate decrease, while the share of reductions owed to AB 265 customers would go into SDG&E’s TCBA to pay down an undercollection attributed to those customers.

CLECA argues that rates should be decreased in proportion to the manner in which they were increased in D.01-05-064. CLECA would do this by “determining the percentage drop in system average rates sufficient to fully cover the revenue requirement reduction and then applying that percentage figure to the amount of the energy rate increases imposed on each schedule as a result of the June 2001 rate increase decision.” (CLECA Reply Comments, p. 7.)

The proposals of SDG&E and CLECA are overly broad and overly complex, and go well beyond the scope of D.02-12-045. In that decision, we allocated the revenue requirement and set a new power charge on a per kWh basis to satisfy that revenue requirement. To remain consistent with that general approach, it makes the most sense for any adjustment we make today to also be on a per-kWh basis.⁹

The question remains as to whether the rate reduction should be allocated to customers paying the bond charge, or to customers paying the power charge.

⁹ SCE also rebuts CLECA’s argument with its observation that if the reduction is allocated on an equal-cents per kWh basis, large customers with lower average rates will receive a larger percentage rate reduction. (SCE Reply Comments, p. 6.)

This is ultimately a policy question, as there would be a basis for either approach. D.02-12-045 adjusted the power charge to satisfy DWR's 2003 revenue requirement, so allocating the reduced 2003 revenue requirement via the power charge (or to those customers paying the power charge), would certainly be consistent with our previous decision. In addition, some DWR costs, such as the cost of maintaining the reserves that are now being reduced, are paid by customers via the power charge. On the other hand, other DWR costs, such as the initial cost of establishing the reserves that are now being reduced, are paid by customers (again on a per-kWh basis) via the bond charge.

The key difference is that the power charge is not paid by residential customers using less than 130% of baseline, while the bond charge is. Accordingly, an allocation based on the bond charge would flow the reduction to residential customers with usage under 130% of baseline, while an allocation based on the power charge would not.

We believe that the relief provided by the reduced DWR revenue requirement should be spread broadly, rather than narrowly. The bond charge paid by customers has gone to DWR, so all customers that have paid the bond charge have paid for costs relating to DWR's revenue requirement. Accordingly, we will adopt TURN and CFBF's recommendation to allocate the reduction to all customers that pay the bond charge. This strikes an appropriate balance, for while customers using under 130% of baseline will receive a relatively small credit (as their usage is relatively low), they will at least receive some credit.

Finally, the impacts on direct access and departing load customers need to be addressed. As adopted in D.03-07-030, the cost responsibility surcharge (CRS) applicable to DA and DL customers is currently capped at 2.7 cents/kWh. Thus, to the extent the DWR power charge applicable to these customers exceeds

proceeds available from the 2.7 cents CRS, the residual obligation is accounted for as an undercollection subject to recovery from DA/DL customers through future years' surcharge collections. Thus, to the extent that any of the reductions in the 2003 DWR revenue requirement are attributable to DA and DL customer obligations, those reductions will be flowed through currently 100% to bundled customers by today's order, thereby reducing the CRS undercollection to be paid off in future years. The precise determination of the extent to which the DWR 2003 revenue reductions impact the CRS undercollections is beyond the scope of this proceeding, but will be addressed in R.02-01-011.

Returning the Money to Ratepayers

The most contentious issue in this proceeding is the question of when (and how) the reduction in DWR's revenue requirement will flow back to ratepayers. As noted in ALJ Allen's Ruling, the simplest approach under the Addendum is for there to be a reduction in the DWR Charges, which include the Power Charge and the Bond Charge. Other approaches are possible, but only with the agreement of the Commission and DWR. The approach initially proposed by DWR, as shown in Energy Division's examples, was to essentially shut off or reduce the flow of dollars received by DWR for a period of time adequate to adjust for the difference between the original and revised revenue requirements.

Because we are now relatively late in the year, and because the amount at issue is quite large, the flow of dollars would need to be shut off for two or three months. If this were to be reflected in a rate reduction, that reduction would end around the end of the year. Some parties are concerned by this schedule, and have proposed alternative approaches.

SCE proposes to return the reduction to its customers over the course of 2004. Under SCE's proposal, DWR (or alternately SCE) would accumulate the

dollars owed to SCE's ratepayers in a memorandum account, which would then be subtracted from the portion of DWR's 2004 Power Charge revenue requirement allocated to SCE's customers. In short, SCE's customers would see the reduction over twelve months, beginning in January 2004. CFBF similarly would implement the revenue decrease as a bill credit, amortized over 12 months in 2004.

SDG&E would implement the reduction by means of a commodity rate decrease amortized over 15 months, beginning October 1, 2003. CLECA makes a proposal similar to that of SDG&E.

All of these parties basically argue that: 1) customer rate decreases could not be implemented before September or October of this year; 2) the decreases would probably last around two or three months; and 3) they anticipate that rates in general will rise on January 1, 2004 (at least in part because of DWR's 2004 revenue requirement). As a consequence, customers would see significant rate volatility, with rates dropping for a few months, only to pop back up even higher in January 2004. In order to mitigate that volatility, these parties would spread the reduction out over 2004.

The problem of short-term rate volatility is a valid concern,¹⁰ but it is not clear that the solution recommended by these parties is the best approach. SCE and CFBF's approach, with reductions beginning in 2004, makes the supplemental determination pointless. Waiting until 2004 to implement the

¹⁰ This volatility is exacerbated by DWR submitting its supplemental determination significantly later in the year than hoped for by this Commission. If the reduction in revenue requirement could have been implemented earlier in the year, we could have lowered rates promptly, passing through to ratepayers lower DWR charges for more of the year, and reducing the potential for rate shock when the reduction ended.

reduction (of the 2003 revenue requirement) means that DWR could have just incorporated the adjustment into its 2004 revenue requirement, rather than submitting a supplemental determination.¹¹ The proposal of SDG&E and CLECA is somewhat better, as it would result in an earlier implementation of any rate reduction, although the reduction itself would be smaller, as it would be spread out even further.

All four proposals advocate rate stability, so that customers do not experience significant rate increases when the rate reduction ends. The downside of such rate stability, however, is that customers similarly will not experience a significant rate reduction when it begins. Both the pain and the pleasure get spread out so as to be largely unnoticeable. In addition, the long-term amortization proposal would result in rate reductions not being complete until December 2004, when those reductions are to compensate for reserves that were no longer necessary beginning in January 2003. This means that customers will have to wait almost two years to be completely made whole for the money that they paid for the unnecessary reserves. Also, with customers leaving and entering the utilities' service territories, this delay increases the proportion of customers not getting back the money they paid, as well as the proportion of customers being compensated for payments they did not actually make.¹²

¹¹ Implementing the decrease at the beginning of 2004 would offset other increases anticipated for the beginning of 2004.

¹² While the parties proposing long-term amortization all would have the rate decrease end in December 2004, there is nothing magical about that date, other than the fact that it corresponds to the anticipated duration of DWR's anticipated 2004 revenue requirement. A six-month amortization, for example, would return the money to

Footnote continued on next page

TURN recommends that the reduction be distributed to ratepayers as quickly as possible via a one-time bill credit or refund check. ORA and the DL Customers also recommend an early one-time bill credit. From a customer standpoint the one-time bill credit is preferable, as it returns customers' money to them as quickly as possible. Most customers, if given the choice, would likely prefer an immediate refund to letting DWR (or their utility) hold onto their money for 12 to 15 months.

In addition, the one-time bill credit is a solution to the concerns regarding rate volatility. A customer who sees a small-to-moderate reduction in their bill over two or three months may begin to consider that the result of an ongoing change in rates, resulting in the potential for an unpleasant surprise when the rates go back up. On the other hand, a one-time credit, especially if it is clearly identified on the bill, is going to be less confusing, and more likely to be perceived as a unique windfall. This is reinforced by rates remaining the same after the one-time credit, at least until January 2004.

Initially, it was not clear whether a one-time bill credit was feasible. Under the terms of the Addendum, the Commission by itself can only adjust DWR Charges. Because of the size of the rate reduction that needs to be implemented, and because we could not make this rate reduction earlier in the year, one month's Power Charge would be too small to fully reflect the rate reduction (unless, for example, the Power Charge became a negative number). Accordingly, a one-time bill credit could not be achieved purely by reducing the

ratepayers much sooner, soften the impact of any January 1, 2004 rate increase, and provide for more accurate price signals during the critical summer peak period in 2004.

Power Charge to zero, but would appear to require agreement from DWR (to depart from the terms of the Addendum) before it could be implemented.

DWR's August 4 Memorandum indicates that DWR agrees to the use of a one-time bill credit. Given DWR's agreement, and the strong policy and fairness reasons for returning the money at issue to ratepayers as quickly as possible, we will adopt a one-time bill credit. The usage that the credit is based upon should be related to the usage that the charges were based upon, so the credit should be calculated on the basis of the last 12 months of each customer's usage. Because the implementation of the one-time bill credit most directly impacts DWR's and the utilities' cash flow and accounting and billing systems, we leave the remaining details of implementation up to DWR and the utilities, with the requirement that customers actually receive the bill credit within 60 days of the effective date of this decision. PG&E's situation, however, is different.

PG&E

The situation of PG&E is unique in two major ways. First, PG&E is currently in Chapter 11 bankruptcy. In proceeding I.02-04-026, this Commission is considering a proposed settlement of its bankruptcy litigation with PG&E. We have no desire for our action here today to limit our options in evaluating the bankruptcy settlement. For example, approval of the proposed settlement is one possible outcome of I.02-04-026, and we will not preclude or undercut that outcome here. Similarly, rejection of the proposed settlement is also a possibility, so this decision does not rely upon approval of the proposed settlement.

Second, PG&E owes DWR over \$500 million for remittances relating to Western Area Power Administration (WAPA) loads. DWR initially estimated that the amount owed by PG&E was \$539 million; PG&E claims that the correct number is \$516 million; DWR's reply memorandum revises its estimate to

\$526 million, subject to certain adjustments. PG&E and DWR agree that for the 2001-2002 period, PG&E owes DWR \$469 million. PG&E proposes to adjust DWR's revenue requirement by \$23 million, to reflect the difference between DWR's \$539 million estimate and PG&E's \$516 million estimate. (PG&E Comments, p. 12.) Neither PG&E nor this Commission gets to adjust DWR's revenue requirement, and DWR expressly states that any changes due to variances from the \$539 million figure will be accounted for outside of the supplemental determination. (DWR Supplemental Determination, p. 20.) Accordingly, for purposes of this decision we will use the \$526 million figure, with the acknowledgement that DWR may revise this number.

PG&E proposes to net or offset the amount it owes DWR with the approximately \$444 million that DWR would otherwise be returning to PG&E's customers; so if PG&E owed DWR \$526 million, PG&E would remit to DWR the difference, or \$82 million, and essentially stop there. The problem with PG&E's proposal is that the funds coming from DWR and those going to DWR do not belong in the same pocket. The funds coming from DWR actually belong to PG&E's ratepayers, not PG&E. If PG&E merely remitted the difference (\$82 million in the above example), and kept the remainder, PG&E would effectively pocket \$444 million in ratepayer money. Absent the bankruptcy proceeding and the proposed settlement, we would simply require PG&E to pay DWR the money owed, and DWR could then use that money to provide a refund or credit to all customers, including those of PG&E.

PG&E argues, in essence, that the \$444 million cannot be returned to ratepayers because the proposed settlement calls for PG&E's retail rates to remain at current levels through December 31, 2003, and returning the money to ratepayers would effectively change PG&E's rates. A one-time bill credit, with

existing rates left in place, may not technically violate this term of the proposed settlement. Nevertheless, since the end result of a rate reduction and a bill credit would essentially be the same (at least from PG&E's perspective), this may be too artful an approach to be consistent with the intent of the proposed settlement.

At the same time, PG&E has not presented anything in this proceeding to indicate that it actually needs any or all of the \$444 million for the proposed bankruptcy settlement to work. Since that money is ratepayer money, and the money owed to DWR is DWR money, the bankruptcy settlement should not be anticipating that those funds would be available to PG&E, but we do not have an adequate record in this proceeding to confirm that common-sense conclusion.

If PG&E's overall rates remain the same, but with the Power Charge reduced to zero, PG&E will accumulate ratepayer funds that would have otherwise gone to DWR. To ensure that those ratepayer funds remain available to be returned to PG&E's ratepayers,¹³ and to ensure that DWR has adequate cash flow to fund the one-time bill credit for the other utilities, we will establish the following procedure. PG&E is to immediately remit to DWR the difference between the amount that PG&E owes to DWR (as calculated by DWR) and the amount that PG&E will be accumulating from the cessation of the Power Charge (as calculated by Energy Division). For example, if PG&E owes DWR \$526 million, and PG&E ratepayers will be paying \$444 million less in DWR Power Charges, PG&E would immediately pay DWR \$82 million. Subsequently, on the first day of each month, PG&E will remit to DWR an amount equal to the amount that DWR expects to reduce charges to PG&E customers for that month.

¹³ If not otherwise needed for purposes of getting PG&E out of bankruptcy.

Any remaining balances that are not yet due to DWR will be paid to DWR as they become due, based on the previously established collection curve.¹⁴

An amount equal to the amount that DWR reduces its charges to PG&E each month will accumulate in the new Customer Credit Holding Account (CCHA). Within a few months, the CCHA should have a balance of approximately \$444 million. If PG&E believes that any funds held in the CCHA need to be used for purposes other than being directly credited to ratepayers in a manner consistent with this decision, PG&E must file a motion in the bankruptcy proceeding (I.02-04-026), and served on the service list in this proceeding as well, seeking express permission, and identifying the specific purpose for which the funds would be used. Once the bankruptcy settlement is resolved, or as ordered by the Commission, the entire balance in the CCHA will be refunded to PG&E's customers via a one-time bill credit, consistent with this decision. The CCHA is and will remain subject to Commission direction. The unfortunate consequence is that PG&E's customers will not see any immediate rate decrease as a result of DWR's reduced revenue requirement, but should receive a decrease once the bankruptcy litigation is resolved.

PG&E also notes that in late 2002, it committed to several procurement contracts with renewable generators, but DWR entered into those contracts to serve as the creditworthy purchaser in lieu of PG&E. PG&E argues that under D.02-12-045, those contracts should not be part of the DWR revenue requirement allocated among the utilities, but rather should be direct assigned to the

¹⁴ To the extent approved by DWR, accounting entries rather than cash payments may be used for all transactions after the initial remittance from PG&E to DWR.

appropriate utility. (PG&E Comments, p. 13.) DWR appears to defer determination of this issue to the CPUC. (DWR Reply Memorandum, p. 3.) We agree with PG&E that the costs of such contracts should be directly assigned to the customers of the utility that entered those contracts. However, PG&E did not provide adequate information in this proceeding for us to identify the contracts or their quantities, or to determine if the contracts actually are part of the DWR revenue requirement. Accordingly, the only action we take today is to indicate our general agreement with PG&E on this issue, and refer this matter back to PG&E and DWR for negotiation in light of this decision.

Comments on Draft Decision

Consistent with Commission Rule of Practice and Procedure 77.7(f)(9), we determine that public necessity requires reduction of the otherwise applicable comment period. The public interest in the Commission adopting a decision before expiration of the standard 30-day comment period clearly outweighs the public interest in having the full 30-day comment period.

In this case, the public, in the form of utility customers, will be receiving bill credits totaling approximately \$1 billion. The public interest in receiving those bill credits as promptly as possible is very high. By comparison, the scope of this proceeding is very narrow, with the issues largely prescribed by our previous decision, D.02-12-045. Today's decision is a limited follow-up to that earlier decision. Accordingly, the public interest in having a full comment period is relatively low. Consistent with the prior ALJ Ruling establishing the schedule for this proceeding, comments are due by the close of business on August 28, 2003. Comments should be served separately, via individual e-mail, to ALJ Peter V. Allen at pva@cpuc.ca.gov.

Assignment of Proceedings

Loretta M. Lynch and Geoffrey F. Brown are the Assigned Commissioners and Peter V. Allen is the assigned Administrative Law Judge for this phase of this proceeding.

Findings of Fact:

1. DWR has submitted a supplemental determination of its 2003 revenue requirement.
2. DWR's supplemental determination reduces its 2003 revenue requirement by \$1.002 billion.
3. The attached Table C and Appendix A correspond to Table C and Appendix A in D.02-12-045, revised to reflect DWR's supplemental determination.
4. D.02-12-045 largely precluded re-litigation of the allocation methodology adopted in that decision for DWR's 2003 revenue requirement.
5. The reduction in DWR's 2003 revenue requirement will have an impact on direct access and departing load customers.
6. Issues relating to direct access and departing load are generally being addressed in another proceeding, R.02-01-011.
7. Customers have paid DWR-related costs through the Power Charge and the Bond Charge.
8. Allocating the reduction in DWR's 2003 revenue requirement to all customers that pay the bond charge will result in the largest number of customers benefiting from the reduction.
9. Amortizing the reduction through 2004 would reduce rate volatility, but would also delay customers' receipt of the reduction.

10. A one-time bill credit would be the most expeditious way to provide the reduction to customers, and would also reduce rate volatility.

11. DWR has agreed to a one-time bill credit.

12. PG&E owes DWR over \$500 million for remittances relating to WAPA loads.

13. PG&E's proposal to net its WAPA payments against expected reductions for its ratepayers from DWR would result in PG&E retaining ratepayer money.

14. PG&E is currently in Chapter 11 bankruptcy.

15. A proposed settlement of bankruptcy-related litigation is being considered in I.02-04-026.

Conclusions of Law

1. The allocation of the reduction in DWR's 2003 revenue requirement should be allocated to customers by service territory consistently with D.02-12-045.

2. The attached Table C and Appendix A are consistent with D.02-12-045.

3. Issues relating to the impact DWR's revenue reduction on direct access and departing load customers should be addressed in R.02-01-011.

4. The reduction in DWR's 2003 revenue requirement should be allocated to all customers that pay the Bond Charge.

5. The reduction in DWR's 2003 revenue requirement should be returned to customers via a one-time bill credit.

6. Requiring PG&E to immediately pay DWR for the WAPA remittances and to provide an immediate bill credit to its customers for the reduction in the DWR revenue requirement may be inconsistent with the proposed settlement of the bankruptcy litigation being considered in I.02-04-026.

7. The reduction in DWR's revenue requirement should remain identifiable for possible eventual crediting to PG&E's customers.

O R D E R

IT IS ORDERED that:

1. The allocation of the reduction in the California Department of Water Resources' (DWR) 2003 revenue requirement by service territory is to be done consistently with D.02-12-045, as described above.
2. The charges shown in Table C shall go into effect immediately, and will remain in effect until further order of the Commission.
3. The reduction in DWR's 2003 revenue requirement is to be returned to bundled utility customers paying the bond charge via a one-time bill credit, as described above.
4. All bundled utility customers receiving the bill credit shall receive it no later than 60 days from the effective date of this decision.
5. Issues relating to the impact of DWR's revenue reduction on direct access and departing load customers will be addressed in R.02-01-011.
6. Pacific Gas and Electric Company (PG&E) will immediately remit to DWR the difference between the amount PG&E owes to DWR for WAPA remittances and the amount (calculated by Energy Division) that PG&E customers would be receiving as a result of DWR's reduced revenue requirement, as described above.
7. On the first day of each month, PG&E will remit to DWR an amount equal to the amount that DWR expects to reduce charges to PG&E customers for that month, with any remaining balances to be paid based on the collection curve, as described above.
8. PG&E will establish the Customer Credit Holding Account (CCHA), and will accumulate in the CCHA an amount equal to the amount that DWR reduces its charges to PG&E customers, as described above.

9. The CCHA is subject to Commission direction.

10. The Commission or Assigned Commissioner or Administrative Law Judge shall issue further orders or rulings as needed regarding the process and schedule of future phases of this proceeding.

This order is effective today.

Dated _____, at San Francisco, California.

Table C**Calculation of IOU Power Charges Based Upon DWR Supplemental Determination****2003 DWR Expenses, Offset by Non-Ratepayer Revenues**

Power Costs	\$4,627,763,007
Administrative and General Expenses	\$48,501,501
Ancillary Services	\$21,750,000
Less:	
Change in Operating Account Balance	(\$345,382,161)
Revenues from Sale of Excess DWR Power	(\$132,213,327)
DA CRS Revenue	(\$187,312,401)
Interest Earnings on Fund Balance	(\$32,355,702)
DWR Revenue Required from Ratepayers	\$4,000,750,918

Allocation of Total

<u>Revenue Requirement</u>	<u>PG&E</u>	<u>SCE</u>	<u>SDG&E</u>	<u>Total</u>
Variable Contract Costs	\$139,501,598	\$89,472,520	\$147,198,760	\$376,172,878
Fixed Costs	\$1,825,133,387	\$1,693,271,068	\$429,805,746	\$3,948,210,200
Ancillary Services	\$9,641,703	\$9,169,955	\$2,938,342	\$21,750,000
Adjustment to Operating Account	(\$149,754,506)	(\$140,915,922)	(\$54,711,733)	(\$345,382,161)
Total Revenue Requirement	\$1,824,522,182	\$1,650,997,621	\$525,231,115	\$4,000,750,918

2003 DWR Delivered Energy (kWh)

20,296,173,705	16,259,774,036	5,446,147,794	42,002,095,535
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Components of IOU

<u>Power Charge (\$/kWh)</u>	<u>PG&E</u>	<u>SCE</u>	<u>SDG&E</u>	<u>Total</u>
□ Variable Power Cost Component	\$0.00687	\$0.00550	\$0.02703	\$0.00896
□ Fixed Power Cost Component	\$0.08992	\$0.10414	\$0.07892	\$0.09400
□ Ancillary Services Cost Component	\$0.00048	\$0.00056	\$0.00054	\$0.00052
□ Operating Account Adjustment	(\$0.02232)	(\$0.02232)	(\$0.02232)	(\$0.02232)
Total IOU Power Charge (\$/kWh)	\$0.07495	\$0.08789	\$0.08417	\$0.08115

Appendix A
2003 DWR Supplemental Determination
Methodology for Allocation of Revenue Requirement

Note: The allocation of the 2003 DWR Supplemental Determination revenue requirement is based on the allocation methodology authorized by the CPUC in D.02-12-045.

1. Calculate each IOU's portion of DWR supplied energy, which is adjusted for Pre-DA migration.

a) Calculate the proportion of DWR and URG supplied energy in each IOU's resource portfolio

Line	GWh	PG&E	SCE	SDG&E	Total	Source
1	Supply from URG					Removed after IOU review--these values are not used in the allocation calculations
2	Supply from DWR	24,017	20,026	6,314	50,358	DWR Financial Model (IOU Tabs)
3	Total Supplied Energy					Line 1 + Line 2 (Removed after IOU review--these values are not used in the allocation calculations)
4	URG % of IOU Portfolio					Line 1 / Line 3 (Removed after IOU review--these values are not used in the allocation calculations)
5	DWR % of IOU Portfolio					Line 2 / Line 3 (Removed after IOU review--these values are not used in the allocation calculations)

b) Adjust the amount of DWR supplied energy for each IOU by adding Pre-DA migration factor to DWR supplied energy. In addition, subtract DWR's share of surplus energy from DWR supplied energy.

Line	GWh	PG&E	SCE	SDG&E	Total	Source
6	Direct Access	8,154	11,044	3,479	22,677	DWR Financial Model (IOU_DA Tabs)
7	Departing Load	0	0	0	0	Data not available
8	DWR Share of Surplus Energy*	(1,832)	(2,215)	(547)	(4,594)	DWR Financial Model (IOU Tabs)
9	DWR Supplied Energy Adjustment	6,322	8,829	2,932	18,083	Line 6 + Line 7 + Line 8
10	DWR Share of Portfolio	30,340	28,855	9,246	68,441	Line 2 + Line 9
11	% DWR Supplied Energy	44.33%	42.16%	13.51%	100%	Line 10 / Total Line 10

* Off-system sales volumes are directly assigned to IOUs based on 2003 actuals and ProSym forecasts. Consequently, it is no longer necessary to calculate off-system sales as was done in D.02-12-045 Appendix A.

2) Calculate the adjusted DWR Revenue Requirement and allocate to each IOU

a) Start with DWR's 2003 Supplemental Determination Revenue Requirement

Line	2003 DWR Revenue Requirement		Source
12	Power Costs	\$4,627,763,007	DWR Supplemental Determination, Table A-1
13	Administrative & General Expenses	\$48,501,501	DWR Supplemental Determination, Table A-1
14	Change in Operating Fund Balance*	\$0	
15	Ancillary Services	\$ 21,750,000	DWR Supplemental Determination, Table A-1
16	Less:		
17	Revenue from Surplus Sales**	\$0	
18	Interest Earnings on Fund Balance	\$(32,355,702)	DWR Supplemental Determination, Table A-1
19	DA CRS Revenue **	\$0	
20	DWR Revenue Requirement	\$4,665,658,806	(Sum of Lines 12 - 15) - (Sum of Lines 17 - 19)

*Operating fund balance is initially set to zero and then calculated once everything else has been allocated to the IOUs. See step 2.e

** Revenue directly assigned to the IOUs. See step 2.d.

b) Calculate each IOU's supplied energy allocation factor by dividing each IOU's portion of DWR supplied energy by the total DWR supplied energy

Line	GWh	PG&E	SCE	SDG&E	Total	Source
21	% DWR Supplied Energy	44.33%	42.16%	13.51%	100%	Line 11

c) Determine each IOU's share of the DWR Revenue Requirement by multiplying the adjusted DWR Revenue Requirement by each IOU's supplied energy allocation factor.

Line		PG&E	SCE	SDG&E	Total	Source		
22	Adjusted DWR Revenue Requirement				\$4,665,658,806	Line 20		
23	% Adjusted DWR Supplied Energy	44.33%	42.16%	13.51%	100%	Line 21		
24	IOU Share of Adjusted DWR Revenue Requirement	\$2,068,271,073	\$1,967,075,060	\$630,312,674	\$4,665,658,806	Line 22 * Line 23		

d) Reduce each IOU's share of the DWR Revenue Requirement by the portion of off-system sales and DA CRS revenue assigned to each IOU.

Line		PG&E	SCE	SDG&E	Total	Source
25	IOU Share of Adjusted DWR Revenue Requirement	\$2,068,271,073	\$1,967,075,060	\$630,312,674	\$4,665,658,806	Line 24
26	DWR's share of Surplus Sales Revenue *	\$55,620,610	\$59,100,728	\$17,491,989	\$132,213,327	DWR Financial Model (IOU Tabs)
27	DWR's share of DA CRS Revenue **	\$38,373,775	\$116,060,789	\$32,877,837	\$187,312,401	DWR Financial Model (IOU Tabs)
28	IOU Share of DWR Revenue Requirement less surplus sales and DA CRS revenue	\$1,974,276,688	\$1,791,913,543	\$579,942,847	\$4,346,133,078	Line 25 - Line 26 - Line 27

* Off-system sales revenues are directly assigned to each IOU based on 2003 actuals and ProSym forecasts. Consequently, its no longer necessary to calculate off-system sales as was done in D.02-12-045 Appendix A. However, due to revenue from other sources, total "Other Power Sales" is approximately \$20 million higher than the total of DWR's share of OSS revenue. The additional surplus revenue was allocated to the individual IOUs on a prorata basis.

** DA CRS revenues are directly assigned to each IOU based on 2003 actuals and DA CRS forecasts generated by DWR's financial model.

e) Solve the DWR model to determine the additional revenue, or revenue reduction, that is required to maintain the operating account balance at or above \$344 million, and then allocate that over/undercollection to the IOUs to determine the final DWR Revenue Requirement allocation.

Line		PG&E	SCE	SDG&E	Total	Source
29	IOU Share of Adjusted DWR Revenue Requirement	\$1,974,276,688	\$1,791,913,543	\$579,942,847	\$4,346,133,078	Line 28
30	Operating Account*	\$(149,754,506)	\$(140,915,922)	\$(54,711,733)	\$(345,382,161)	Model solution: Operating Account Power Charge component * DWR deliveries from 9/5/2003 onward (line 46 * line 48)
31	Final allocation of DWR Revenue Requirement	\$1,824,522,182	\$1,650,997,621	\$525,231,115	\$4,000,750,918	Line 29 + Line 30

* The DWR financial model needs to be solved with rates found in lines 43 - 45 to determine change to Operating Account (OA) funding levels.

3) Remittance Rate Calculation

a) Determine the amount of dollars to be remitted for variable costs, fixed costs, ancillary services, and operating fund balance.

Line		PG&E	SCE	SDG&E	Total	Source
32	Allocation Factor	44.33%	42.16%	13.51%	100%	Line 21
33	Adjusted Rev Req.	\$2,082,614,248	\$1,980,716,455	\$634,683,805	\$4,698,014,508	(Sum of Lines 12 - 15) * Line 32
34	Less:					
35	Variable Costs	\$139,501,598	\$89,472,520	\$147,198,760	\$376,172,878	DWR Workpapers Provided to Energy Division
36	Ancillary Services	\$9,641,703	\$9,169,955	\$2,938,342	\$21,750,000	Line 15 * Line 32
37	Interest Earnings	\$14,343,175	\$13,641,395	\$4,371,132	\$32,355,702	Line 18 * Line 32
38	Off-System Sales	\$55,620,610	\$59,100,728	\$17,491,989	\$132,213,327	Line 26
39	DA CRS	\$38,373,775	\$116,060,789	\$32,877,837	\$187,312,401	Line 27
40	Fixed Costs	\$1,825,133,387	\$1,693,271,068	\$429,805,746	\$3,948,210,200	Line 33 - (sum of lines 35 - 39)
41	Change in Operating Fund Balance	(\$149,754,506)	(\$140,915,922)	(\$54,711,733)	(\$345,382,161)	Line 30

b) Calculate the specific DWR remittance rates

Line		PG&E	SCE	SDG&E	Total	Source
42	2003 DWR Delivered Energy (kWh)	20,296,173,705	16,259,774,036	5,446,147,794	42,002,095,535	DWR Financial Model (IOU Tabs)
43	Variable Costs (\$/kWh)	\$0.00687	\$0.00550	\$0.02703	\$0.00896	Line 35 / Line 42
44	Fixed Costs (\$/kWh)	\$0.08992	\$0.10414	\$0.07892	\$0.09400	Line 40 / Line 42
45	Ancillary Services (\$/kWh)	\$0.00048	\$0.00056	\$0.00054	\$0.00052	Line 36 / Line 42
46	Operating Account (\$/kWh) *	(\$0.02232)	(\$0.02232)	(\$0.02232)	(\$0.02232)	Model Solution
47	Total IOU Power Charge (\$/kWh)	\$0.07495	\$0.08789	\$0.08417	\$0.08115	Sum of Lines 43 - 46

* To determine the final power charge needed to exactly achieve DWR's required Operating Account (OA) funding levels, the model needs to be solved for the power charge component found on line 46. This power charge component is multiplied by DWR deliveries to each IOU from 9/5/2003 through 12/31/2003 to calculate the values on line 41. The deliveries for this period are shown below.

48	DWR Delivered Energy, 9/5/2003 – 12/31/2003 (kWh)	6,709,358,338	6,313,368,755	2,451,215,861	15,473,942,954	DWR Financial Model (IOU Tabs)
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(END OF APPENDIX A)